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Surveys of Consumer Attitudes

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THE SEVEN PERCENT SOLUTION: AUTO MARKET REACHES NEW HIGH

- In the September 1985 survey, the Index of Consumer Sentiment was 92.1, just below the 92.4 recorded one month earlier, but well below the 100.9 recorded in September 1984. Despite the decline during the past year, consumer sentiment nonetheless has remained more favorable for a longer period of time than since the 1960s.

- Among families with income of $25,000 or more, the Index of Consumer Sentiment fell to 99.5 in September, from 104.1 one month earlier, and 107.7 one year earlier.

- Car buying attitudes reached a new peak favorable level in the September survey due to the availability of reduced interest rates. Among all families, 72 percent rated car buying conditions favorably. Reduced interest rates offered by vehicle manufactures were mentioned by 45 percent of all families in September, the highest level ever recorded. Overall, auto buying attitudes have remained more favorable for a longer period of time than since the 1960s.

- Home buying attitudes remained near record levels in the September survey, also due to favorable perceptions of interest rates as well as prices. Among all families, 72 percent thought buying conditions for homes were favorable in the September survey, just below the all time record of 73 percent set two months earlier. In support of these favorable attitudes, 51 percent mentioned the availability of reduced mortgage rates, up from 22 percent one year earlier.

- Many fewer consumers expected the economy to improve during the year ahead in the September survey (23 percent) than one year earlier (33 percent), or at the 1983 cyclical peak (55 percent). Although the 23 percent recorded in September is the lowest level since early 1980, there has only been a small increase in the proportion of families that expected the national economy to actually worsen—17 percent in September 1985, up from 15 percent one year earlier. The shift in consumer opinion has been toward the view that the economy would continue on its current slow pace of expansion—reported by 58 percent in September, up from 48 percent one year earlier, and the highest level since the 1960s.

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The response of consumers to the recent interest rate reductions has demonstrated not only their willingness to spend, but also their resolve to wait for discounts on prices and interest rates. The maintenance of high sales levels depends on the continuation of these discounts.

Although consumers now believe that the upward momentum in the economy has been drained, few expect actual declines to follow. Good economic news has now lost its ability to stimulate further improvement in sentiment due to habituation—for example, the recent news about the low level of inflation attracted little attention. As a result of habituation to favorable news, consumers have become more sensitive to unfavorable developments. But isolated bits of news lack the ability to sustain widespread and cumulative changes in mass attitudes. Cumulative declines in sentiment require a focal point to integrate diverse economic developments. None has yet emerged—neither of the twin deficits has served this function for consumers. And some of the traditionally important components of a gathering storm are missing, namely, rising concern with inflation and falling confidence in the government's ability to maintain the current expansion.

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Buying Attitudes

Auto buying attitudes reached a new all-time peak favorable level in the September survey. This marks the second resurgence in favorable buying attitudes since they first reached record levels in early 1983. In the September 1985 survey, 72 percent of all families favorably rated buying conditions for vehicles, up from 59 percent last September, and above the previous record of 66 percent posted in early 1983 and again in early 1984. Overall, vehicle buying attitudes have remained more favorable for a longer period of time than since the 1960s.

The single most important reason given by consumers for these very favorable attitudes was the reduced interest rates offered by vehicle manufacturers. Among all families in the September survey, a record 45 percent mentioned the availability of reduced interest rates on car loans, up from just 11 percent one year earlier (see Table A). Favorable perceptions of new vehicle prices also supported these positive buying attitudes. In the September survey, favorable price references outnumbered unfavorable reports by a margin of 25 to 15 percent, a significant improvement over the 24 to 22 percent margin recorded one year earlier.

Favorable perceptions of interest rates and prices have also supported very favorable home buying attitudes. Home buying conditions were viewed favorably by 72 percent of all families in the September survey, up from 69 percent one month earlier, and just below the all-time peak of 73 percent recorded two months earlier. This represents a substantial improvement over one year earlier, when 48 percent of all families favorably rated home buying conditions, and surpasses the prior record of 66 percent recorded in early 1983 and early 1984. In the September 1985 survey, 51 percent of all families referred to the availability of lower mortgage rates, more than twice the 22 percent recorded one year earlier (see Table A). In addition, references to the availability of good buys on homes was twice as frequent as complaints about high prices (24 versus 12 percent), a substantial improvement over the unfavorable balance of opinion recorded one year earlier (14 versus 16 percent).

Buying conditions for large household durables were viewed favorably by 73 percent of all families in the September 1985 survey, up from 69 percent one month earlier, and 72 percent one year earlier. The major reason given for these very positive buying attitudes was references to the availability of price discounts. Among all families in the September 1985 survey, 39 percent mentioned the availability of discounted prices, compared with just 14 percent that registered complaints about high prices for household durables.

Personal Finances

In the September 1985 survey, 43 percent of all families reported that their financial situation had improved during the last year, up from 41 percent one month earlier, but slightly below the 45 percent recorded one year earlier. Slower income growth has been responsible for the small decline in evaluations. In the September 1985 survey, fewer families reported that their income had increased during the past year, 35 percent, down from 39 percent one year earlier. Despite the small declines during the past year, consumers' evaluations of their financial progress remained more favorable in the September 1985 survey than at their peak in the late 1970s.

Consumers continue to hold a positive outlook for their personal financial situation. Among all families, 35 percent expected their financial situation to improve in the September survey, just below the 36 percent recorded one month earlier, and the 39 percent recorded one year earlier. This small decline has been due to the expected continuation of slower growth in incomes. In the 1985 survey, 56 percent of all families expected income increases, down from 64 percent in September 1984. Despite the expected slowdown in income growth, just 11 percent of all families expected their financial situation to actually worsen during the year ahead in the September 1985 survey.

Business Conditions

Among all families in the September 1985 survey, 52 percent thought that the national economy had improved during the past year, down from 68 percent one year earlier. Reports that

the national economy had worsened during the past year rose to 31 percent in September 1985, from 18 percent one year earlier.

The recent slowdown in economic growth was also expected to persist during the year ahead. Among all families in the September 1985 survey, 23 percent expected business conditions to improve during the year ahead, down from 33 percent one year earlier. Importantly, there was only a marginal increase in the proportion of families that expected the national economy to worsen during the year ahead (17 percent, up from 15 percent). Instead, the proportion of families that expected the current pace of slow growth to persist during the year ahead rose to 58 percent in September 1985, from 48 percent one year earlier.

Despite the expected persistence of slow economic growth, the majority of families in the September 1985 survey expected good times financially during the upcoming year. Fifty-two percent reported that they expected good times financially in the economy as a whole in the September 1985 survey, down from 66 percent one year earlier.

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The September 1985 survey included 654 interviews conducted between September 3 and September 27, 1985.

TABLE A

REFERENCES TO INTEREST RATES IN SUPPORT OF FAVORABLE BUYING CONDITIONS

Survey Date		Durables		Houses[a]		Vehicles	
		Low[b] Rates	BiA[b] Rates	Low[b] Rates	BiA[b] Rates	Low[b] Rates	BiA[b] Rates
January	1980	1%	2%	na	na	1%	1%
February	1980	1	2	2	7	1	2
March	1980	1	4	na	na	1	2
April	1980	*	3	*	3	3	1
May	1980	*	2	3	3	*	1
June	1980	2	1	14	2	2	1
July	1980	4	1	17	6	2	1
August	1980	3	2	19	9	3	1
September	1980	1	2	11	11	2	2
October	1980	1	3	6	10	1	2
November	1980	*	2	2	8	1	2
December	1980	1	2	1	5	2	2
January	1981	*	2	1	3	4	1
February	1981	1	2	2	5	2	1
March	1981	1	*	1	4	1	1
April	1981	*	2	3	6	2	1
May	1981	1	2	4	3	3	1
June	1981	*	1	1	4	2	1
July	1981	1	1	2	4	2	1
August	1981	2	1	3	5	4	1
September	1981	*	1	3	3	4	2
October	1981	*	1	1	3	4	*
November	1981	1	1	2	2	5	*
December	1981	1	1	4	2	4	1
January	1982	2	1	5	3	4	2
February	1982	1	1	4	3	3	*
March	1982	*	1	3	2	3	*
April	1982	1	*	4	2	7	*
May	1982	2	1	3	3	10	1
June	1982	1	1	5	2	6	1
July	1982	1	1	2	2	4	1
August	1982	1	1	3	4	5	1
September	1982	3	1	16	4	9	1
October	1982	4	1	19	4	10	1
November	1982	5	*	25	5	19	1
December	1982	6	2	30	5	26	1

REFERENCES TO INTEREST RATES IN SUPPORT OF FAVORABLE BUYING CONDITIONS(Cont'd)

Survey Date		Durables		Houses[a]		Vehicles	
		Low Rates	BiA Rates	Low Rates	BiA Rates	Low Rates	BiA Rates
January	1983	7%	*	33%	4%	27%	2%
February	1983	7	1	35	5	34	1
March	1983	7	1	38	6	33	1
April	1983	12	2	46	8	38	2
May	1983	12	1	49	6	38	2
June	1983	13	3	49	12	38	2
July	1983	14	2	40	9	34	3
August	1983	11	1	33	11	30	3
September	1983	9	3	35	12	25	3
October	1983	6	1	29	9	17	2
November	1983	6	2	29	11	20	2
December	1983	6	1	30	11	16	3
January	1984	8	1	33	8	20	3
February	1984	9	2	38	12	19	3
March	1984	8	2	36	13	19	3
April	1984	8	6	29	23	15	7
May	1984	7	4	24	20	14	4
June	1984	7	4	21	17	12	6
July	1984	5	5	21	16	16	8
August	1984	6	2	22	13	12	5
September	1984	6	2	22	12	11	4
October	1984	7	4	24	11	10	4
November	1984	8	3	33	11	15	3
December	1984	8	2	32	6	12	3
January	1985	10	1	42	7	21	2
February	1985	9	2	42	8	23	1
March	1985	8	2	38	10	21	2
April	1985	10	3	34	13	22	3
May	1985	9	2	35	8	25	3
June	1985	11	2	50	6	32	3
July	1985	13	1	51	6	33	2
August	1985	15	*	54	4	35	1
September	1985	14	1	51	5	45	1

*Less than 0.5 percent.

[a]Also includes homes, home repairs and real estate.

[b]The proportions given above provide greater detail than is reported in the monthly tables (see Tables 27, 29 and 31). The figures above divide the total proportion of respondents that made favorable references to credit conditions into those respondents that referred to the current availability of *low interest rates*, and those that referred to *borrowing-in-advance* (BIA) of rising interest rates.